SALTUS
Investment Managers

March monthly portfolio summary

A month of minor wobbles that ended well

March brought a remarkable first quarter of 2019 to a positive finish, with both risky and safer assets generating solid returns. The recovery was sharp and 'wind assisted' by the world's central banks, who, led by the Federal Reserve, reversed their previous intentions to tighten interest rates in the face of rapidly slowing economic growth.

When the Federal Reserve clarified in mid-March that policy would be on hold for ''some time'' and underlined the message with a series of other technical announcements, markets were again taken by surprise on the aggressiveness of this policy pivot and reacted very positively. However, as the end of the month approached the implications of exactly *why* the Fed had changed policy so quickly began to sink in, causing a retracement in prices and sentiment.

The core reason behind the screeching U-turn in central bank policies – from tightening to effective loosening – is slowing global economic growth. This was the big investment issue of 2018 and ended up sparking two rapid and nasty downward corrections in virtually all assets at the beginning and end of last year. The policy U-turns have sparked impressive 'equal and opposite' market recoveries around the globe this quarter, broadly cancelling out the losses of the previous three months, but we also think that investors are unconvinced that we are 'out of the woods'. More evidence is needed that the slowdown in economic momentum is ending, before the recent gains can be taken as something close to permanent.

Bond and stock markets polarised on outlook

A neat illustration of the split between headline strength in markets and underlying hesitancy about how sticky these gains will turn out to be, can be taken from the expectations of recession priced in to stock and bond markets. According to JP Morgan, the S&P 500 stock index is pricing a 15% chance of a recession in the USA in the next 12 months, whilst the US government bond market is assuming an 80% chance. That's quite a difference and this type of split opinion is not just a US phenomenon – bond and equity markets are showing the same sharp differences in outlook across the globe. Given the current record levels of debt in the financial system, any form of recessionary environment would inevitably undermine confidence and lead quickly to market reversals. Hence, investors are broadly sitting on the sidelines right now, waiting to see which outlook the fundamental data supports. We have a feeling it might end up somewhere in between the two views, less scary than the bond market expects but not as good as the stock market is hoping for either and have positioned portfolios accordingly.

Whilst investors sit on the sidelines and central banks intervene so heavily, the end result is a zig-zag trading pattern for assets and a general increase in uncertainty. It isn't that much of a surprise the environment has turned out to be this way and whilst noisy, it isn't necessarily a bad environment for returns. Patience, long term investment horizons and a prudent spread of risk are the base ingredients for all portfolio decisions and we continue to see enough sensible ideas to give us a decent chance of making steady progress from here.

We hesitate to comment on Brexit, given the rapid pace of events and would sympathise with the strategists at investment bank Societe Generale, who describe the whole situation as "untradeable". We think that as nearly all portfolios are global in nature, we have UK exposures sized appropriately for each risk mandate. That's not to say we are immune to bad news or insensitive to good news – just that the portfolio impacts should hopefully not be too dramatic one way or the other.

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Portfolio performance

Portfolios returned between +0.7% and +1.1% for the month depending on mandate. The most eye catching performances came from bond managers who delivered strong returns as a result of the aggressive policy changes from central banks. Whether from direct exposure, to government index linked bonds or via credit managers, all core positions had a very good month and a very good first quarter as a whole. Equity positions also performed strongly, particularly those concentrated in the larger cap arena. Weakness was confined to areas with liquidity risk or political issues, in particular UK small cap equity.

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EQUITIES	Negative	Neutral	Positive
UK Equities			•
European Equities		•	
US Equities			•
Japanese Equities			•
Asian/EM Equities		•	
Equity Market Neutral		•	
Equity Hedged Strategies			•
Private Equity			•
FIXED INCOME	**Negative**	**Neutral**	**Positive**
Gilts		•	
Investment Grade Bonds		•	
High Yield Bonds		•	
Fixed Income Multi Strategy			•
OTHER ALTERNATIVES	**Negative**	**Neutral**	**Positive**
Global Macro Trading			•
Commodities		•	
Real Estate	•		

David Cooke

Saltus Investment Managers, April 2019

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